



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 30, 1998

### **S. 442**

### **Internet Tax Freedom Act**

*As ordered reported by the Senate Committee on Finance on July 28, 1998*

#### **SUMMARY**

S. 442 would impose a two-year moratorium on certain state and local taxation of online services and electronic commerce. In addition, the bill would establish an Advisory Commission on Electronic Commerce to examine issues related to the taxation of electronic commerce. Finally, the bill would require the Office of the United States Trade Representative to include an analysis of electronic commerce in its annual report on barriers to market access in foreign countries. CBO estimates that enacting S. 442 would result in new discretionary spending of \$1 million to \$2 million over the 1999-2003 period, assuming appropriation of the necessary amounts.

S. 442 could affect direct spending and receipts, so pay-as-you-go procedures would apply, but CBO estimates that any such effects would be negligible.

S. 442 contains no private-sector mandates, but by imposing a moratorium on certain types of state and local taxes, the bill would impose an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA). CBO cannot estimate whether the direct costs of this mandate would exceed the statutory threshold established in UMRA (\$50 million in 1996, adjusted annually for inflation).

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

S. 442 would establish an advisory commission to examine issues related to the taxation of electronic commerce. The commission would exist for up to 18 months and would consist of representatives of federal, state, and local governments, citizens, and business interests. The bill would authorize the commission to have reasonable access to information, resources, and space to conduct meetings from the Departments of Commerce, Justice, and the Treasury. CBO estimates the commission's expenses for the next 18 months would be less than \$500,000 annually because no staff or contractual support would be authorized by the

bill. CBO expects that nonfederal participants would bear a significant portion of the costs of the commission.

S. 442 would authorize the commission to accept and use gifts and donations to assist in its work. Donations of money are recorded in the budget as governmental receipts (revenues), and the use of any such amounts would be direct spending. CBO expects that any such effects would be negligible.

S. 442 would require the Office of the U.S. Trade Representative to include an analysis of electronic commerce in its annual report concerning barriers to market access in foreign countries. Based on information from the Department of Commerce, CBO estimates this work would cost less than \$500,000, assuming appropriation of the necessary funds. The costs of this legislation fall within budget function 370 (commerce and housing credit).

## **PAY-AS-YOU-GO CONSIDERATIONS**

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. By allowing the proposed advisory commission to accept and use donations, S. 442 could affect both direct spending and receipts, but CBO estimates that any such donations would be significantly less than \$500,000 a year.

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

S.442 contains no private-sector mandates, but by imposing a moratorium on certain types of state and local taxes, the bill would impose an intergovernmental mandate as defined in UMRA. CBO cannot estimate whether the direct costs of this mandate would exceed the statutory threshold established in UMRA (\$50 million in 1996, adjusted annually for inflation). CBO's estimate of the bill's impact on state, local, and tribal governments is provided as a separate enclosure.

## **PREVIOUS CBO ESTIMATES**

CBO has completed cost estimates for four other versions of the Internet Tax Freedom Act. On June 23, 1998, CBO transmitted an estimate of H.R. 3529, as ordered reported by the House Committee on the Judiciary on June 17, 1998. On June 19, 1998, CBO transmitted an

estimate of H.R. 3849, as reported by the House Committee on the Judiciary on June 19, 1998. On May 22, 1998, CBO transmitted an estimate of the federal costs of H.R. 3849, as ordered reported by the House Committee on Commerce on May 14, 1998. And on January 21, 1998, CBO transmitted an estimate of the federal costs of S. 442, as ordered reported by the Senate Committee on Commerce, Science, and Transportation on November 4, 1997. Differences between those estimates and this estimate of S. 442 reflect differences in the bills.

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